

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

Utah Associated Municipal Power Systems
Years Ended March 31, 2007 and 2006

Utah Associated Municipal Power Systems
Financial Statements and Supplemental Schedules

Years Ended March 31, 2007 and 2006

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Report of Independent Auditors

The Board of Directors
Utah Associated Municipal Power Systems

We have audited the accompanying balance sheets of Utah Associated Municipal Power Systems as of March 31, 2007 and 2006 and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Utah Associated Municipal Power Systems' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Utah Associated Municipal Power Systems as of March 31, 2007 and 2006, and the changes in its financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2007 on our consideration of Utah Associated Municipal Power Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplemental schedules of changes in funds required by the revenue bond resolutions and project financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

July 11, 2007

Utah Associated Municipal Power Systems

Management's Discussion and Analysis

Introduction

The following is a discussion and analysis of Utah Associated Municipal Power Systems' (UAMPS) financial performance and position, providing an overview of UAMPS' activities for the years ended March 31, 2007 and 2006.

Description of Business

UAMPS is a political subdivision of the state of Utah (the State). Its 49 members (the Members) include public power utilities in Utah, Arizona, California, Idaho, Nevada and New Mexico. UAMPS' purposes include the planning, financing, development, acquisition, construction, operation and maintenance of various projects for the generation, supply, transmission and management of electric energy for the benefit of the Members. UAMPS is governed by its Board of Directors (the Board). The Board consists of directors representing Members that have entitlement shares in the various projects undertaken by UAMPS. UAMPS is a project-based organization and presently operates 13 separate projects that provide a variety of power supply, transmission and other services to the Members that participate in them. The Members make their own elections to participate in UAMPS' projects and are not obligated to participate in any particular project. In general, UAMPS and its Members that elect to participate in a project enter into a contract that specifies the services or product to be provided by UAMPS from the project, the payments to be made by participating Members in respect of the costs of the project and other matters relating to the project.

Providing the Members with better methods to share resources and information about electric power issues is an important role for UAMPS. Through the Government and Public Affairs (GPA) project the Members are able to participate in the political process at the state and federal levels and to monitor current political issues that could directly impact the future of the electric industry.

UAMPS' Board has ultimate control of UAMPS, maintaining managerial, financial and operational responsibility. UAMPS functions as an autonomous company supported solely from its own revenues. All assets, debts and obligations of UAMPS are separate and distinct from the assets, debts and obligations of the State. Upon dissolution of UAMPS, any monies not needed to liquidate UAMPS' obligations would be returned to its Members.

Highlights

UAMPS posted an excess of revenues over expenses for the years ended March 31, 2007 and 2006 of \$1.8 million and \$11.5 million, respectively. In the prior year, there was a \$10 million sale of sulfur dioxide allowances associated with the San Juan and Hunter plants that did not

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Management's Discussion and Analysis (continued)

occur in the current year, which accounts for the decrease of \$9.7 million. The Members may elect to be issued a refund of the 2007 excess of revenues over expenses during fiscal year 2008.

Overview of the Financial Statements

This report includes UAMPS' audited financial statements presented in accordance with accounting principles generally accepted in the United States. The audited financial statements include four components: balance sheets, statements of revenues and expenses and changes in net assets, statements of cash flows and notes to the financial statements. The balance sheets provide information at a particular point in time; the statements of revenues and expenses show the results of the organization for the fiscal period. The changes in net assets allow a look at the changes in net assets over the period, including additions due to the excess of revenue over expenses and decreases due to distributions. The statements of cash flows illustrate the cash that is received from and expended on various activities over the period.

Notes to the financial statements provide additional schedules and information that are essential to a complete understanding of the financial statements.

UAMPS' financial statements were audited in accordance with auditing standards generally accepted in the United States and Government Auditing Standards issued by the Comptroller General of the United States.

All statements are prepared on the accrual basis of accounting. All revenues and expenses are recognized when earned or incurred regardless of when cash is received or spent.

Financial Analysis

Total cash and invested assets at March 31, 2007 and 2006 were \$45.3 million and \$38.2 million, respectively. The \$7.1 million increase between March 31, 2006 and 2007 resulted from two main factors. First, the build up in the major maintenance overhaul reserve account balances increased the invested assets by \$1.2 million. Additionally, cash increased \$5.9 million as a result of the timing of payments. UAMPS operating sweep account and checking account balances fluctuate from year to year due to the timing of cash receipts and payments.

Utah Associated Municipal Power Systems

Management's Discussion and Analysis (continued)

The components of cash and investments at March 31, 2007, 2006, and 2005 consisted of the following:

	2007	2006	2005
Cash equivalents	21.0%	16.0%	21.0%
Utah Public Treasurer's Investment Fund	79.0	84.0	79.0
	100.0%	100.0%	100.0%

At March 31, 2007 and 2006, accounts receivable totaled \$21.6 million and \$19.4 million, respectively. The increase of \$2.2 million between March 31, 2006 and 2007 were due to normal timing fluctuations for cash receipts.

The table below summarizes UAMPS' total assets and total liabilities at March 31, 2007, 2006, and 2005:

	2007	2006	2005
	<i>(In Thousands)</i>		
Total current assets	\$ 49,107	\$ 35,458	\$ 27,467
Total long-term assets	207,695	219,893	241,212
Total assets	<u>\$ 256,802</u>	<u>\$ 255,351</u>	<u>\$ 268,679</u>
Total current liabilities	\$ 48,792	\$ 34,982	\$ 28,099
Total long-term liabilities	203,130	216,006	238,102
Total liabilities	<u>251,922</u>	<u>250,988</u>	<u>266,201</u>
Net assets:			
Invested in plant, net of debt	(7,190)	(17,628)	(24,186)
Restricted net assets	21,234	21,476	6,828
Unrestricted net assets	(9,164)	515	19,836
	<u>4,880</u>	<u>4,363</u>	<u>2,478</u>
Total liabilities and net assets	<u>\$ 256,802</u>	<u>\$ 255,351</u>	<u>\$ 268,679</u>

Financial Analysis of Operations

Operating revenue from power sales for the years ended March 31, 2007 and 2006 was \$163.5 million and \$172.8 million, respectively. The amount at March 31, 2007 represents a decrease of \$9.3 million from March 31, 2006. The decrease in revenue is due to the \$10 million sale of

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Management's Discussion and Analysis (continued)

sulfur dioxide allowances associated with the San Juan and Hunter plants. This sale occurred in fiscal year 2006, and did not recur in fiscal year 2007.

The operating revenue at March 31, 2006 represented an increase of \$24.8 million from March 31, 2005 due largely to the sale of sulfur dioxide Allowances associated with the San Juan and Hunter Plants for \$10 million. Additionally, \$6 million is a result of higher fuel cost collections in fiscal year 2006 as compared to fiscal year 2005. The remaining amount can be attributed to other business needs for various projects.

The operating revenue at March 31, 2005 represents a decrease of \$2.9 million from 2004. The decrease was primarily due to increases in billings to members for collection of debt service for the Payson project of \$8.5 million, offset by reductions of billings to members for fixed cost revenue and production revenue of \$11.9 million. Additionally, transmission revenue increased by \$0.5 million as a result of a new contractual arrangement related to the Craig Mona project.

Interest income for 2007, 2006, and 2005 was \$1,607,404, \$1,287,041, and \$732,009 respectively. The increase from 2006 to 2007, as well as the increase from 2005 to 2006 relates primarily to the increase in interest rates as well as higher balances in the major maintenance overhaul reserve accounts for the respective years.

Utah Associated Municipal Power Systems

Management's Discussion and Analysis (continued)

The table below summarizes UAMPS' total revenues and expenses for fiscal years 2007, 2006, and 2005.

	Year Ended March 31		
	2007	2006	2005
	<i>(In Thousands)</i>		
Revenues:			
Power sales	\$ 163,500	\$ 172,810	\$ 147,982
Interest income	1,607	1,287	732
Other income	16	213	1,345
	<u>165,123</u>	<u>174,310</u>	<u>150,059</u>
Expenses:			
Cost of power	124,849	114,047	98,519
Other expenses	27,611	27,053	26,955
	<u>152,460</u>	<u>141,100</u>	<u>125,474</u>
Excess of revenues over expenses before net costs to be recovered from future billings to members	12,663	33,210	24,585
Decrease in net costs to be recovered from future billings to members	(10,815)	(21,710)	(22,945)
Excess of revenues over expenses	<u>1,848</u>	<u>11,500</u>	<u>1,640</u>
Net assets at beginning of year	4,363	2,478	5,332
Distributions	(1,331)	(9,615)	(4,494)
Net assets at end of year	<u>\$ 4,880</u>	<u>\$ 4,363</u>	<u>\$ 2,478</u>

Cash Flow and Liquidity

UAMPS' sources of cash include power sales, services, issuance of debt and investment income. Outstanding checks in excess of transfers at year-end increased from \$214,886 in 2006 to \$818,896 in 2007. The increase is due to timing of the transfer from the revolving line of credit.

At March 31, 2006, the balance on the revolving line of credit (used for cash management) was \$463,252 of the \$3.0 million available. There were no amounts outstanding at March 31, 2007.

In October 2004, UAMPS obtained an \$8.0 million revolving line of credit at a variable rate in relation to LIBOR. In January 2005, UAMPS obtained an additional \$3.0 million revolving line of credit from the same financial institution upon substantially the same terms and conditions as those contained in the initial \$8.0 million revolving line of credit. In September 2006, UAMPS obtained an additional \$8.0 million revolving line of credit from the same financial institution upon substantially the same terms and conditions as those contained in the initial \$8.0 million

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Management's Discussion and Analysis (continued)

revolving line of credit. The outstanding balance on the combined \$19.0 million available revolving line of credit was \$14.0 million at March 31, 2007. At March 31, 2006 and 2005 the balance on the combined revolving line of credit was \$10.5 million and \$3.2 million, respectively.

Budgets and Billing

The UAMPS Board is presented a budget for its approval prior to the start of each fiscal year and power billings are based on that budget. Monthly reports are presented to the Board describing the operating costs compared to the budget and the revenues derived from the billing process. Any deviations are explained and the budgets are amended as necessary.

Significant Capital Assets and Long-Term Debt Activity

In fiscal year 2003, UAMPS committed to construct the Payson Project. The Payson Project is a 143 megawatt combined-cycle natural-gas-fired generating, transmission and natural gas delivery facility in central Utah. UAMPS issued \$101.0 million Payson Power Project series 2003 revenue bonds in March 2003 to partially fund the commitment. The project was completed and placed in service in June 2004. UAMPS' contractual commitments for future construction costs relating to the remaining Payson Project facilities amounted to approximately \$54,000 at March 31, 2007, \$342,400 at March 31, 2006, and \$716,000 at March 31, 2005. The decrease has resulted from the completion of various stages of the plant.

In order to meet the Members' growing load needs, UAMPS, along with the City of Glendale, California; PacifiCorp Energy and Southern Nevada Water Authority (collectively, the "Development Participants"), continue with the engineering and construction-related procurement of IPP Unit 3. IPP Unit 3 will be located adjacent to Units 1 and 2 at the Intermountain Power Project site near Delta, Utah.

On March 31, 2007, the construction work-in-progress balance is \$3,381,629, which relates to prepaid materials costs associated with environmental upgrades to the San Juan plant during a planned Fall 2007 outage. The balance at March 31, 2006 was \$1,743,132 relating to planned outage repairs at the Hunter plant in the Spring of 2006. The balance at March 31, 2005 was \$150,000 relating to the Payson plant.

On April 19, 2006 UAMPS issued \$1,250,000 Central-St. George Transmission Project (the "Project") Revenue Bond Anticipation Notes, Series 2006, to provide funds necessary to pay the cost of additions and improvements to the Project.

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Management's Discussion and Analysis (continued)

Subsequent to year end, UAMPS issued the Hurricane-Washington Generating Project Revenue Bonds, Series 2007AB, (totaling \$3,725,000) maturing May 1, 2027 at 4.15%-5.00% interest. The bonds were issued to provide funds for the purchase of three generators for the cities of Hurricane and Washington.

Western Electric Energy Markets

The energy markets in the Western Interconnection have stabilized with the implementation of new rules implemented by the Federal Energy Regulatory Commission (FERC).

The amount of energy from Western Area Power Administration (WAPA) and the contract rate of delivery has remained stable from fiscal 2006 into fiscal 2007.

Load growth is the most serious issue facing many utilities, including UAMPS. This presents challenges in both acquiring new generation resources and also in working with the various transmission providers to UAMPS in order to see that the needed transmission infrastructure is built in a timely fashion.

The concerns that are being raised over greenhouse gas emissions and other environmental issues concerned with operating an electric utility are affecting UAMPS' resource and transmission planning. UAMPS is complying with all of the current rules and statutes and is looking at all of the many proposed rules that may be implemented to ensure that UAMPS will be in compliance.

The Implementation of Energy Policy Act of 2005 – EPAct2005 proposed many mandatory actions for the utility industry through the rules being promulgated by FERC and the Nuclear Energy Regulatory Commission. Many of the mandatory rules became effective on June 18, 2007. UAMPS is in compliance with those rules that are applicable to its functional requirements and is assisting its Members in understanding and complying with the program.

Requests for Information

This financial report is designed to provide a general overview of UAMPS' finances for all those with an interest in UAMPS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Controller, UAMPS, 2825 East Cottonwood Parkway, Suite 200, Salt Lake City, Utah 84121.

Utah Associated Municipal Power Systems

Balance Sheets

	March 31,	
	2007	2006
Assets		
Current assets:		
Investments	\$ 9,504,388	\$ 3,542,164
Receivables	21,554,045	19,411,915
Prepaid expenses and deposits	18,048,492	12,503,455
	<u>49,106,925</u>	<u>35,457,534</u>
Restricted assets:		
Investments	35,788,683	34,625,758
	<u>35,788,683</u>	<u>34,625,758</u>
Utility plant and equipment:		
Generation	199,310,075	193,771,254
Transmission	64,651,483	62,903,172
Furniture and equipment	1,231,352	1,155,450
	<u>265,192,910</u>	<u>257,829,876</u>
Less accumulated depreciation	(101,192,643)	(89,938,857)
	<u>164,000,267</u>	<u>167,891,019</u>
Construction work in progress	3,381,629	1,743,132
	<u>167,381,896</u>	<u>169,634,151</u>
Other assets:		
Unamortized bond issuance costs (net of accumulated amortization of \$2,401,000 in 2007 and \$2,086,000 in 2006)	3,430,631	3,724,405
Net costs to be recovered from future billings to members	1,094,166	11,909,208
	<u>4,524,797</u>	<u>15,633,613</u>
Total assets	<u>\$ 256,802,301</u>	<u>\$ 255,351,056</u>

	March 31,	
	2007	2006
Liabilities and net assets		
Current liabilities:		
Outstanding checks in excess of transfers	\$ 818,896	\$ 214,886
Accounts payable	15,464,992	10,286,510
Accrued liabilities	16,523,316	11,274,332
Members' advance billings	657,496	657,496
Note payable	14,000,000	10,963,252
Current portion of deferred revenue	1,327,176	1,585,747
	<u>48,791,876</u>	<u>34,982,223</u>
Liabilities payable from restricted assets:		
Accrued interest payable	3,694,274	3,744,484
Current portion of long-term debt	13,509,008	13,228,613
	<u>17,203,282</u>	<u>16,973,097</u>
Long-term debt:		
Bonds payable, less current portion	168,550,000	180,185,000
Unamortized bond discount	(92,109)	(541,073)
Unamortized bond premium	6,895,626	7,519,634
	<u>175,353,517</u>	<u>187,163,561</u>
Deferred revenue, less current portion	10,573,420	11,869,019
Net assets:		
Invested in plant, net of debt	(7,189,392)	(17,628,092)
Restricted net assets	21,233,803	21,475,747
Unrestricted net assets	(9,164,205)	515,501
	<u>4,880,206</u>	<u>4,363,156</u>
Total liabilities and net assets	<u>\$ 256,802,301</u>	<u>\$ 255,351,056</u>

See accompanying notes.

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Statements of Revenues and Expenses and Changes in Net Assets

	Years Ended March 31,	
	2007	2006
Operating revenues:		
Power sales	\$ 163,499,516	\$ 172,809,490
Other	16,146	213,360
	<u>163,515,662</u>	<u>173,022,850</u>
Operating expenses:		
Cost of power	124,848,933	114,047,215
In lieu of ad valorem taxes	590,097	586,551
Depreciation	11,392,733	10,886,380
General and administrative	6,306,824	5,618,608
	<u>143,138,587</u>	<u>131,138,754</u>
Operating income	20,377,075	41,884,096
Nonoperating revenues (expenses):		
Interest income	1,607,404	1,287,041
Interest expense	(8,970,185)	(9,620,728)
Amortization of bond issuance costs	(351,208)	(340,586)
	<u>(7,713,989)</u>	<u>(8,674,273)</u>
Excess of revenues over expenses before net costs to be recovered from future billings to Members and extraordinary item	12,663,086	33,209,823
Decrease in net costs to be recovered from future billings to Members	(10,815,042)	(21,710,036)
Excess of revenues over expenses	<u>1,848,044</u>	<u>11,499,787</u>
Net assets at beginning of year	4,363,156	2,478,271
Distributions	(1,330,994)	(9,614,902)
Net assets at end of year	<u>\$ 4,880,206</u>	<u>\$ 4,363,156</u>

See accompanying notes.

Utah Associated Municipal Power Systems

Statements of Cash Flows

	Years Ended March 31	
	2007	2006
Operating activities		
Cash received from customers	\$ 160,090,552	\$ 168,916,522
Cash payments to suppliers for goods and services	(123,501,997)	(121,860,914)
Cash payments to employees for services	(2,663,567)	(2,474,123)
Cash payments for ad valorem taxes	(697,861)	(494,954)
Deferred revenue	(271,190)	—
Net cash provided by operating activities	32,955,937	44,086,531
Capital and related financing activities		
Additions to utility plant and equipment	(9,140,478)	(7,094,734)
Proceeds from issuance of long-term debt	1,250,000	—
Principal payments on refunding revenue bonds	(12,625,000)	(10,191,214)
Interest payments on refunding revenue bonds	(9,175,041)	(9,298,701)
Bond issuance costs	(57,437)	—
Distribution	(1,330,994)	(9,614,902)
Net cash used in capital and related financing activities	(31,078,950)	(36,199,551)
Noncapital and related financing activities		
Proceeds from increase in notes payable	3,036,748	6,724,370
Payments for variable lines of credit refunding	—	(10,774,095)
Interest payments on special notes	—	(170,886)
Net cash provided by (used in) noncapital and related financing activities	3,036,748	(4,220,611)
Investing activities		
Increase in current investments	(5,962,224)	(363,926)
Restricted assets:		
Net increase in investments	(1,162,925)	(4,523,550)
Interest income received	1,607,404	1,287,041
Net cash used in investing activities	(5,517,745)	(3,600,435)
Increase (decrease) in cash	(604,010)	65,934
Outstanding checks in excess of transfers at beginning of year	(214,886)	(280,820)
Outstanding checks in excess of transfers at end of year	\$ (818,896)	\$ (214,886)

Utah Associated Municipal Power Systems

Statements of Cash Flows (continued)

	Years Ended March 31	
	2007	2006
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 20,377,075	\$ 41,884,096
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,392,733	10,886,380
Amortization of deferred revenue	(1,282,980)	(1,270,362)
Deferred revenue	(271,190)	—
Increase (decrease) in current receivables	(2,142,130)	(2,835,966)
Increase in prepaid expenses and deposits	(5,545,037)	(4,791,171)
Increase (decrease) in accounts payable	5,178,482	(4,562,460)
Increase in accrued liabilities	5,248,984	4,776,014
Net cash provided by operating activities	<u>\$ 32,955,937</u>	<u>\$ 44,086,531</u>

See accompanying notes.

Utah Associated Municipal Power Systems

Notes to Financial Statements

March 31, 2007

1. Summary of Significant Accounting Policies

Organization and Purpose

Utah Associated Municipal Power Systems (UAMPS), a separate political subdivision of the state of Utah, was established pursuant to the provisions of the Utah Interlocal Co-operation Act of November 1980 and was organized under the Amended and Restated Utah Associated Municipal Power Systems Agreement for Joint Cooperative Action. UAMPS' membership consists of 38 municipalities, one joint action agency, one electric service district, three public utility districts, two water conservancy districts, two co-ops, one municipal utility district, and one nonprofit corporation (collectively, the Members). The Members are located in Utah, Arizona, Idaho, Nevada, New Mexico, and California.

UAMPS is a separate legal entity that possesses the ability to establish its own budget, incur debt, sue and be sued, and own and lease property. No other governmental units in Utah exercise significant control over UAMPS. As such, UAMPS is not a component unit as defined by the Governmental Accounting Standards Board (GASB) in its Statement No. 14, *The Financial Reporting Entity*. Further, as defined in this Statement, UAMPS has no component units that should be included in the accompanying financial statements.

UAMPS' purposes include planning, financing, developing, acquiring, constructing, improving, bettering, operating, and maintaining projects or ownership interests or capacity rights therein for the generation, transmission, and distribution of electric energy for the benefit of its Members.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. The accounting and reporting policies of UAMPS conform with the accounting rules prescribed by the GASB. UAMPS has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as all applicable Financial Accounting Standards Board Statements and Interpretations issued on or after November 30, 1989, except for those that conflict with or contradict with GASB pronouncements.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that could affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications were made to prior year financial statements to conform with the fiscal year 2007 presentation.

Investments

All investments, except for the Utah Public Treasurer's Investment Fund, are recorded at fair value. Investments' estimated fair values are obtained from the last reported sales price on the last business day of the year using market quotes from independent pricing agencies. The Utah Public Treasurer's Investment Fund is a "2a-7-like" pool and is recorded at amortized cost.

Receivables

Receivables consist primarily of current power billings to Members.

Utility Plant and Equipment

Generation assets, transmission assets, furniture, and equipment are stated at cost, less accumulated depreciation. Interest incurred in the construction and implementation of fixed assets is capitalized into the cost of the fixed assets. Expenditures that increase values or extend useful lives are capitalized and routine maintenance and repairs are charged to expense in the period incurred. Leasehold improvements are capitalized and amortized over the lesser of the asset life or lease term. Depreciation is calculated using the straight-line method at rates that are designed to depreciate the cost of the assets over estimated useful lives ranging from three to 26 years.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Unamortized Bond Issuance Costs

Unamortized bond issuance costs related to the issuance of the Hunter II Project Revenue and Refunding Bonds, the Central-St. George Transmission Project Revenue and Refunding Bonds, the Craig-Mona Transmission Project Revenue and Refunding Bonds, the San Juan Project Revenue and Refunding Bonds, and the Payson Power Project Revenue Bonds are being amortized using the respective effective-interest rates over the terms of the bonds.

Net Costs to Be Recovered from Future Billings to Members

Billings to Members are designed to recover "power costs" as defined by the power sales contracts, which principally include current operating expenses, scheduled debt principal, and interest and deposits into certain funds. Expenses determined in accordance with accounting principles generally accepted in the United States (GAAP), which are not currently billable as "power costs," are deferred and classified as other assets in the accompanying balance sheets until those future periods in which they will become "power costs" and be recovered through billings to Members.

Income Taxes

UAMPS is not subject to federal or state income taxes under provisions of Section 115 of the Internal Revenue Code.

Members' Advance Billings

The power sales contracts between UAMPS and its participants require UAMPS to bill Members in advance based upon estimates of power cost and usage. Members' advance billings at year-end are recorded as a liability.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Deferred Revenue

Certain participants of the Craig-Mona Project, the Payson Project, and the San Juan Project elected to prepay their share of certain future fees for the projects. The participants of the Hunter II Project and the Central-St. George Project have elected to prepay certain costs of acquisition and debt service during refinancing and/or construction of the projects. These payments have been treated as deferred revenue and will be amortized to revenue over the life of the respective bond issues.

Net Assets

Net assets are classified into three components:

- Invested in capital assets, net of related debt: This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted: This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets: This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The accounting policies and practices of UAMPS conform to the accounting principles generally accepted in the United States applicable to an enterprise fund of a government unit.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

2. Power Sales and Transmission Service Contracts Relating to Bonds

UAMPS has entered into power sales and/or transmission service contracts (the Contracts) with various participants (the Purchasers). The Contracts are as follows:

UAMPS has contracted with 22 municipalities and one joint-action agency in the Hunter II Project to supply power from the generating unit. Each contract term extends at a minimum to the date all principal and interest on the 1992, 1998, and 2004 Series Bonds have been paid.

UAMPS has contracted with five municipalities to provide transmission capabilities from the Central-St. George Project to deliver electric power to the participants. Each contract term extends, at a minimum, to the date all principal and interest on the 2000, 2003 and 2006 Series Bonds have been paid.

UAMPS has contracted with nine municipalities and one joint-action agency to provide transmission capabilities from the Craig-Mona Transmission Project to secure electric transmission interconnections with eastern utilities for the participants. Each contract term extends, at a minimum, to the date all principal and interest on the 1993 Series Bonds have been paid.

UAMPS has contracted with 15 municipalities and one electric service district in the San Juan Project to supply power from the generating unit. Each contract term extends, at a minimum, to the date all principal and interest on the 1994, 1998, and 2003 Series Bonds have been paid.

UAMPS has contracted with 16 municipalities and one electric service district in the Payson Project to supply power from the generating unit. Each contract term extends, at a minimum, to the date all principal and interest on the 2003 Series Bonds have been paid. The Payson Project was completed in June 2004.

The Contracts cannot be terminated or amended in any manner that will impair or adversely affect the rights of the bondholders.

Under the terms of the Contracts, the Purchasers are obligated to pay their proportionate share of all operation and maintenance expenses, debt service on the revenue bonds, and any other costs incurred by UAMPS. The Purchasers are obligated to pay whether or not these projects, or any parts thereof, are operating or operable or output is suspended, interrupted, curtailed, interfered with, reduced, or terminated.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

3. Net Costs to Be Recovered from Future Billings to Members

Net costs to be recovered from future billings to Members for the years ended March 31, 2007 and 2006 and the accumulated totals as of March 31, 2007 and 2006, consisted of the following:

	For the Years Ended		Accumulated Totals as of	
	2007	2006	2007	2006
Items in accordance with GAAP not currently billable to Members				
Depreciation, accretion, and amortization of bond issuance costs	\$ 12,192,905	\$ 12,010,430	\$ 145,997,791	\$ 133,804,886
Refunding charge on refunding/ defeasance of revenue bonds	—	—	40,040,626	40,040,626
Principal collected from certain receivables	—	—	8,151,148	8,151,148
Excess bond proceeds (used to pay interest/CWIP)	275,782	61,150	10,679,153	10,403,371
Principal amounts of notes	—	—	1,750,000	1,750,000
Cost recovery on off-system sales losses	238,223	(1,140,043)	40,378,004	40,139,781
Estimated future loss on contracts	—	—	10,384,038	10,384,038
Amortization of deferred revenue	(1,282,980)	(1,270,362)	(16,025,507)	(14,742,527)
Utility plant renewals and replacements	(7,266,018)	(5,293,196)	(36,271,375)	(29,005,357)
Principal amounts of debt service	(12,806,251)	(23,804,480)	(194,065,474)	(181,259,223)
Amortization of bond premium	(603,613)	(584,977)	(1,708,630)	(1,105,017)
Major overhaul reserve payments	(1,558,299)	(1,729,905)	(8,467,522)	(6,909,223)
Accrued personal leave	(4,791)	41,347	251,914	256,705
Net costs to be recovered from future billings to Members	\$ (10,815,042)	\$ (21,710,036)	\$ 1,094,166	\$ 11,909,208

4. Utility Plant and Equipment

UAMPS' interest in two generating units represents a 14.582% and a 7.028% undivided interest in the PacifiCorp Hunter II and the Public Service Company of New Mexico San Juan Unit IV electric generating units (the Generating Units), respectively. The interest is recorded based on UAMPS' acquisition cost. On March 31, 2007, the construction work-in-progress balance was \$3,381,629, which relates to repair and materials costs associated with environmental upgrades for the San Juan plant.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

4. Utility Plant and Equipment (continued)

UAMPS acquired a 15% entitlement share in the transmission capability of a 105-mile 345 kilovolts (kV) transmission line constructed between Craig, Colorado and the Bonanza Generation Station in Uintah County, Utah. UAMPS is responsible for a like percentage of the costs of acquisition, construction, operation, and maintenance of the line. UAMPS has also purchased an entitlement share of 54 megawatt (MW) of transmission capability on the Bonanza line, which extends from the Bonanza Generation Station to the Mona, Utah Substation.

The Central-St. George Project, located in Washington County, Utah, owned and operated by UAMPS, consists of 138 kV transmission facilities, including a 345/138 kV electric substation, approximately 25 miles of 138 kV transmission line, a 138 kV switching yard, a 138/69 kV electric substation, and approximately 16 miles of 69 kV transmission line to provide service to four of its members in Washington County.

The Payson Project is a combined cycle, natural-gas-fired, electric generating facility with a nominal generating capacity of 143 MW located in Payson City, Utah, owned and operated by UAMPS. The Payson Project also includes gas pipelines, electric transmission lines, and other properties, and facilities and equipment necessary for the operation of the generating facility. Engineering, equipment acquisition, and other pre-construction work on the Payson Project began in 2002 and was completed in June 2004 at a total estimated cost of approximately \$114.1 million. UAMPS' contractual commitments for future construction costs relating to the remaining Payson Project facilities amounted to approximately \$54,435 at March 31, 2007.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

4. Utility Plant and Equipment (continued)

A summary of utility, plant and equipment, changes in accumulated depreciation and related depreciation provisions expressed as an average depreciation rate follows:

	Generation	Transmission	Furniture and Equipment	Construction Work-in- Progress	Total
Balance, April 1, 2006	\$ 193,771,254	\$ 62,903,172	\$ 1,155,450	\$ 1,743,132	\$ 259,573,008
Capital additions	5,538,821	1,748,311	214,849	8,925,628	16,427,609
Sales, retirements	—	—	(138,947)	(7,287,131)	(7,426,078)
Balance, March 31, 2007	<u>\$ 199,310,075</u>	<u>\$ 64,651,483</u>	<u>\$ 1,231,352</u>	<u>\$ 3,381,629</u>	<u>\$ 268,574,539</u>
Accumulated depreciation, April 1, 2006	\$ (66,105,461)	\$ (23,252,711)	\$ (580,685)	—	\$ (89,938,857)
Depreciation expense	(8,920,980)	(2,173,570)	(298,183)	—	(11,392,733)
Retirements	—	—	138,947	—	138,947
Accumulated depreciation, March 31, 2007	<u>\$ (75,026,441)</u>	<u>\$ (25,426,281)</u>	<u>\$ (739,921)</u>	<u>—</u>	<u>\$ (101,192,643)</u>
Average depreciation rate	4.5%	3.4%	25.0%	—	4.3%
Balance, April 1, 2005	\$ 190,504,619	\$ 60,970,643	\$ 969,812	\$ 150,000	\$ 252,595,074
Capital additions	3,266,635	1,932,529	302,437	6,644,983	12,146,584
Sales, retirements	—	—	(116,799)	(5,051,851)	(5,168,650)
Balance, March 31, 2006	<u>\$ 193,771,254</u>	<u>\$ 62,903,172</u>	<u>\$ 1,155,450</u>	<u>\$ 1,743,132</u>	<u>\$ 259,573,008</u>
Accumulated depreciation, April 1, 2005	\$ (57,492,766)	\$ (21,205,657)	\$ (470,853)	—	\$ (79,169,276)
Depreciation expense	(8,612,695)	(2,047,054)	(226,631)	—	(10,886,380)
Retirements	—	—	116,799	—	116,799
Accumulated depreciation, March 31, 2006	<u>\$ (66,105,461)</u>	<u>\$ (23,252,711)</u>	<u>\$ (580,685)</u>	<u>—</u>	<u>\$ (89,938,857)</u>
Average depreciation rate	4.5%	3.3%	21.3%	—	4.3%

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

5. Investments

The fair value of investments at March 31, are as follows:

	2007	2006
Restricted:		
U.S. government securities	\$ 5,064,501	\$ 5,045,506
Utah Public Treasurer's Investment Fund	30,724,182	29,580,252
Total	<u>\$ 35,788,683</u>	<u>\$ 34,625,758</u>
Current:		
Bank deposits	\$ 4,556,302	\$ 903,927
Utah Public Treasurer's Investment Fund	4,948,086	2,638,237
Total	<u>\$ 9,504,388</u>	<u>\$ 3,542,164</u>

The fair value of the debt securities at March 31, 2007, by contractual maturity, are due in one year or less. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Bond covenants allow UAMPS to invest in U.S. government securities, obligations of any state including the state treasurer's investment fund, certificates of deposit and banker's acceptances of banks meeting certain minimum requirements and repurchase agreements.

6. Outstanding Checks in Excess of Transfers

Cash consists of deposits with banks. Outstanding checks in excess of transfers consist of outstanding checks and deposits in transit in excess of bank balances of \$1,000 and \$800, at March 31, 2007 and 2006, respectively. Outstanding checks in excess of transfers balances were \$818,896 and \$214,886 at March 31, 2007 and 2006, respectively. The entire bank account balances are covered by federal depository insurance, which insures bank balances up to \$100,000. State statutes do not require such accounts to be collateralized.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt

Pursuant to the Hunter II Project Revenue Bond Resolution, the San Juan Project Revenue Bond Resolution, the Craig-Mona Transmission Project Revenue Bond Resolution, the Central-St. George Transmission Project Revenue Bond Resolution, and the Payson Power Project Bond Resolution (collectively, the Resolutions), all supplemented from time to time, UAMPS has issued the following revenue and refunding revenue bonds and notes payable:

Series	Original Issue	Interest Rate	Original Maturity Date	Principal Outstanding – March 31	
				2007	2006
Hunter II 1992					
Capital appreciation	\$ 24,786,129	5.50%–6.45%	1998–2007	\$ 5,895,000	\$ 11,790,000
Hunter II 1998					
Serial	6,455,000	4.00%–5.00%	2000–2012	3,295,000	3,755,000
Hunter II 2004					
Serial	17,425,000	1.50%–5.00%	2004–2010	17,350,000	17,350,000
San Juan 1998					
Serial	15,750,000	4.00%–5.25%	2000–2015	12,775,000	13,860,000
Term	5,740,000	5.00%	2018	5,740,000	5,740,000
Term	9,125,000	5.00%	2022	9,125,000	9,125,000
	30,615,000				
Craig-Mona 1993					
Serial	8,315,000	2.80%–5.25%	1994–2009	2,890,000	3,765,000
Central-St. George 1997 B					
Serial	2,315,000	3.95%–5.15%	1998–2012	1,125,000	1,285,000
Term	1,840,000	5.38%	2019	1,840,000	1,840,000
	4,155,000				

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt (continued)

Series	Original Issue	Interest Rate	Original Maturity Date	Principal Outstanding – March 31	
				2007	2006
Central-St. George 2000					
Serial	\$ 7,025,000	4.40%–5.40%	2001–2019	\$ 5,365,000	\$ 5,655,000
Central-St. George 2003					
Serial	19,945,000	3.00%–4.75%	2003–2019	16,815,000	17,795,000
Central-St. George 2006					
BAN	1,250,000	3.85%	2009	1,250,000	–
Payson 2003					
Serial	100,850,000	3.00%–5.25%	2006–2026	97,970,000	100,850,000
				<u>181,435,000</u>	<u>192,810,000</u>
Less unamortized bond discount				92,109	541,073
Plus unamortized bond premium				6,895,626	7,519,634
Less current portion (excluding current portion of unamortized bond premium)				<u>12,885,000</u>	<u>12,625,000</u>
				<u>\$ 175,353,517</u>	<u>\$ 187,163,561</u>

The Hunter II Project 1992 Series Bonds (totaling \$32,011,129) are not subject to redemption prior to maturity. The discount associated with these bonds has an effective interest rate of 6.14%.

The Hunter 1998 Series Bonds (totaling \$6,455,000) maturing on or after July 1, 2009 are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after July 1, 2008, at redemption prices ranging from 100% to 101%, plus accrued interest to the date of redemption.

The 2004 Hunter II Series Bonds (totaling \$17,425,000) are not subject to redemption prior to maturity.

The San Juan 1998 Series Bonds (totaling \$30,615,000) maturing on or after June 1, 2009 are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after June 1, 2008, at redemption prices ranging from 100% to 101%, plus accrued interest to the date of redemption.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt (continued)

The Craig-Mona 1993 Series Bonds (totaling \$8,315,000) are not subject to redemption prior to maturity.

The Central-St. George 1997B Series Bonds (totaling \$4,155,000), maturing after December 1, 2008, are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after December 1, 2007, at a redemption price equal to 100%, plus accrued interest to the date of redemption.

The Central-St. George 2000 Series Bonds (totaling \$7,025,000), maturing on or after December 1, 2011, are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after December 1, 2010, at a redemption price equal to 100%, plus accrued interest to the date of redemption.

The Central-St. George 2003 Series Bonds (totaling \$19,945,000), maturing on or after December 1, 2012, are subject to redemption prior to maturity at the option of UAMPS on and after June 1, 2012, in whole or in part on any date, at a redemption price equal to 100% of the principal amount, plus accrued interest to the date of redemption.

On April 19, 2006, UAMPS issued The Central-St. George Revenue Bond Anticipation Notes Series 2006, (totaling \$1,250,000) maturing April 19, 2009 at 3.85% interest. The notes were issued to provide funds necessary to pay the costs of additions and improvements to the Central-St. George Transmission Project and the costs of issuance and the sale of the related bonds.

The Payson Project Revenue 2003 Series Bonds (totaling \$100,850,000), were issued on March 18, 2003 at a premium of \$7,417,478, with effective interest rates of 2.48% to 4.73%. The 2003 Series Bonds maturing on or after April 1, 2014 are subject to redemption prior to maturity at the option of UAMPS, in whole or in part, at various times on or after April 1, 2013 at a redemption price equal to 100%, plus accrued interest to the date of redemption.

The Resolutions for bond issues with term bonds require mandatory sinking fund payments be made beginning in 2005 and beyond. Such sinking fund requirements have been scheduled so that UAMPS will have approximately the same debt service requirement each year over the life of the bonds.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt (continued)

The Resolutions provide that the Revenue and Refunding Revenue Bonds shall be direct and special obligations of UAMPS, payable solely from and solely secured by certain sources described in the Resolutions.

Restricted cash and investments are restricted only for the purposes stipulated in the Resolutions.

The scheduled maturities and related interest, based on scheduled rates for fixed rate bonds and the existing rates at March 31, 2007 for variable rate bonds, of long-term debt are as follows:

Year Ending March 31	Revenue and Refunding Revenue Bonds	Interest	Total Debt Service Requirements
2008	\$ 12,885,000	\$ 8,554,333	\$ 21,439,333
2009	12,820,000	7,904,743	20,724,743
2010	14,700,000	7,202,400	21,902,400
2011	13,030,000	6,538,730	19,568,730
2012	7,305,000	6,113,960	13,418,960
2013-2017	39,590,000	24,404,458	63,994,458
2018-2022	44,490,000	11,939,883	56,429,883
2023-2026	36,615,000	3,582,250	40,197,250
Total	\$ 181,435,000	\$ 76,240,757	\$ 257,675,757

UAMPS has interest expense of \$8,970,185 and \$9,620,728 for the years ended March 31, 2007 and 2006, respectively.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

7. Debt (continued)

The table below shows the changes in net long-term debt balances that occurred during the years ended March 31, 2007 and 2006.

	March 31, 2006	Additions	Reductions	March 31, 2007	Amount Due Within One Year
Hunter II 1992	\$ 11,790,000	\$ —	\$ 5,895,000	\$ 5,895,000	\$ 5,895,000
Hunter II 1998	3,755,000	—	460,000	3,295,000	485,000
Hunter II 2004	17,350,000	—	—	17,350,000	—
San Juan 1998—Serial	13,860,000	—	1,085,000	12,775,000	1,140,000
San Juan 1998—Term	5,740,000	—	—	5,740,000	—
San Juan 1998—Term	9,125,000	—	—	9,125,000	—
Craig Mona 1993	3,765,000	—	875,000	2,890,000	915,000
Central-St. George 1997B—Serial	1,285,000	—	160,000	1,125,000	165,000
Central-St. George 1997B—Term	1,840,000	—	—	1,840,000	—
Central-St. George 2000	5,655,000	—	290,000	5,365,000	305,000
Central-St. George 2003	17,795,000	—	980,000	16,815,000	1,015,000
Central-St. George 2006	—	1,250,000	—	1,250,000	—
Payson 2003	100,850,000	—	2,880,000	97,970,000	2,965,000
	<u>192,810,000</u>	<u>1,250,000</u>	<u>12,625,000</u>	<u>181,435,000</u>	<u>12,885,000</u>
Less unamortized discount	541,073	—	448,964	92,109	—
Plus unamortized premium	8,123,247	—	603,613	7,519,634	624,008
	<u>\$ 200,392,174</u>	<u>\$ 1,250,000</u>	<u>\$ 12,779,649</u>	<u>\$ 188,862,525</u>	<u>\$ 13,509,008</u>

8. Notes Payable

In August 2001, UAMPS obtained a \$3.0 million revolving line of credit at a rate of 75% of the financial institution's prime lending rate for cash flow purposes. This line of credit had a balance of \$-0- and \$463,252 as of March 31, 2007 and 2006, respectively. As of March 31, 2006, UAMPS had obtained a revolving line of credit totaling \$11.0 million at a variable rate in relation to LIBOR. In September 2006, UAMPS obtained an additional \$8.0 million from the same financial institution upon substantially the same terms and conditions. The outstanding balance on the combined \$19.0 million available line of credit was \$14.0 million and \$10.5 million at March 31, 2007 and 2006, respectively. The additional revolving lines of credit were obtained to assist UAMPS with working capital requirements.

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

9. Commitments and Contingencies

UAMPS leases office space under a seven-year operating lease expiring in fiscal year 2011. Future minimum payments under the operating lease obligation are:

Fiscal Year:	
2008	\$ 288,007
2009	295,232
2010	302,456
2011	231,358
	<u>\$ 1,117,053</u>

Rent expense for the years ended March 31, 2007 and 2006 was \$297,039 and \$280,902, respectively.

During the normal course of conducting its business, UAMPS becomes involved in litigation. It is not possible to determine the eventual outcome of presently unresolved litigation. However, management believes it will not have a material adverse effect on UAMPS' financial position or results of operations.

10. Take or Pay Contracts

UAMPS shares an ownership interest in the San Juan Generating Station, which has an agreement with the Public Service Company of New Mexico to purchase a minimum annual quantity of coal. Under the agreement currently in place, the San Juan Generating Station and UAMPS, as a part owner of generating unit number 4, have the following estimated commitments over the next five years:

Year	Tons	Total Commitment at the March 31, 2007 Price per Ton	UAMPS' Estimated Portion of the Commitment
2008	5,600,000	\$ 250,544,000	\$ 5,433,000
2009	5,600,000	250,544,000	5,433,000
2010	5,600,000	250,544,000	5,433,000
2011	5,600,000	250,544,000	5,433,000
2012	5,600,000	250,544,000	5,433,000

Utah Associated Municipal Power Systems

Notes to Financial Statements (continued)

10. Take or Pay Contracts (continued)

During fiscal years 2007 and 2006, UAMPS incurred minimum coal costs of \$5,448,374 and \$5,001,000, respectively, and incremental coal costs of \$186,696 and \$247,000, respectively, as its portion of the existing San Juan Operating Agreement. Incremental coal costs are comprised of variable costs for the purchase of coal in excess of the minimum purchase requirement.

11. Retirement Plan

UAMPS has a noncontributory money purchase defined contribution pension plan, which covers all of its employees. Employees are eligible to participate from the date of employment. Contributions and earnings thereon are always fully vested upon participation in the plan. Contribution levels are established by the Board and are initially equal to 15.3%, increasing to a maximum of 25% of each covered employee's compensation. UAMPS' covered payroll amounted to approximately \$1,960,000 and \$1,790,000 in 2007 and 2006, respectively. Contributions, which are approximately 25% of total payroll, totaled approximately \$490,000 and \$447,500 in 2007 and 2006, respectively. All contributions are invested using an outside pension administrator, ICMA Retirement Corp. (ICMA). ICMA provides the participants with multiple options for their pension investments.

12. Subsequent Event

On May 3, 2007, UAMPS issued the Hurricane-Washington Generating Project Revenue Bonds, Series 2007AB, (totaling \$3,725,000) maturing May 1, 2027 at 4.15%-5.00% interest. The bonds were issued to provide funds for the purchase of three generators for the cities of Hurricane and Washington.

Supplemental Schedules

Utah Associated Mur

Schedules of Change
by the Revenue Fund

Year Ended March 31, 2007

	Revenue Fund	Operations and Maintenance Fund
Balance at March 31, 2005	\$ 3,178,238	\$ (280,820)
Additions:		
Investment earnings receipts	140,563	(67,027)
Debt proceeds	6,724,370	—
Power sales receipts	168,916,522	—
Transfers (to) from other funds	(175,417,529)	148,897,525
	<u>363,926</u>	<u>148,830,498</u>
Deductions:		
Purchase of capital additions	—	3,140,842
Payments on debt	—	10,774,095
Interest payments	—	426,545
Distribution	—	9,614,902
Operating expenses	—	124,808,180
	<u>—</u>	<u>148,764,564</u>
Balance at March 31, 2006	3,542,164	(214,886)
Additions:		
Investment earnings receipts	180,819	—
Debt proceeds	3,036,748	—
Power sales receipts	160,090,552	—
Transfers (to) from other funds	(157,345,895)	133,510,485
	<u>5,962,224</u>	<u>133,510,485</u>
Deductions:		
Purchase of capital additions	—	5,298,572
Payments on debt	—	—
Interest payments	—	353,913
Cost of insurance	—	—
Distribution	—	1,330,994
Operating expenses	—	127,131,016
	<u>—</u>	<u>134,114,495</u>
Balance at March 31, 2007	<u>\$ 9,504,388</u>	<u>\$ (818,896)</u>

ipal Power Systems

in Funds Required
and Resolutions

ch 31, 2007

Construction Fund	Debt Service Fund		Reserve and Contingency Fund	Total
	Debt Service Account	Debt Service Reserve Account		
3,346,342 \$	9,927,100 \$	10,476,547 \$	6,352,219 \$	32,999,626
90,630	259,829	460,266	402,780	1,287,041
—	—	—	—	6,724,370
—	—	—	—	168,916,522
677,639	21,761,044	(631,314)	4,712,635	—
768,269	22,020,873	(171,048)	5,115,415	176,927,933
2,255,369	—	—	1,698,523	7,094,734
—	10,191,214	—	—	20,965,309
—	9,043,042	—	—	9,469,587
—	—	—	—	9,614,902
—	3,750	—	18,061	124,829,991
2,255,369	19,238,006	—	1,716,584	171,974,523
1,859,242	12,709,967	10,305,499	9,751,050	37,953,036
88,508	387,127	461,760	489,190	1,607,404
1,250,000	—	—	—	4,286,748
—	—	—	—	160,090,552
(465,942)	21,571,739	(488,134)	3,217,747	—
872,566	21,958,866	(26,374)	3,706,937	165,984,704
2,254,239	—	—	1,587,667	9,140,478
—	12,625,000	—	—	12,625,000
—	8,821,128	—	—	9,175,041
57,437	—	—	—	57,437
—	—	—	—	1,330,994
—	3,599	—	—	127,134,615
2,311,676	21,449,727	—	1,587,667	159,463,565
420,132 \$	13,219,106 \$	10,279,125 \$	11,870,320 \$	44,474,175

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	CRSP	Hunter II	San Juan Unit 4	IPP	Firm Power	Craig-Mona
Assets						
Current assets:						
Receivables	\$ 1,898,208	\$ 3,032,849	\$ 1,680,459	\$ 3,683,932	\$ 2,463,440	\$ 202,181
Prepaid expenses and deposits	—	4,058,560	6,407,798	2,636,048	—	6,196
Investments	600,016	998,072	634,602	528,805	1,286,681	114,656
	2,498,224	8,089,481	8,722,859	6,848,785	3,750,121	323,033
Restricted assets:						
Investments	—	9,994,677	5,553,230	—	—	1,432,020
Utility plant and equipment:						
Generation	—	59,809,583	45,107,189	—	—	—
Transmission	—	—	—	—	—	17,492,388
Furniture and equipment	118,320	126,713	98,592	68,118	109,608	58,510
	118,320	59,936,296	45,205,781	68,118	109,608	17,550,898
Less accumulated depreciation	(70,886)	(41,789,088)	(19,980,194)	(36,812)	(74,741)	(9,832,987)
	47,434	18,147,208	25,225,587	31,306	34,867	7,717,911
Construction work-in-progress	—	—	3,381,629	—	—	—
	47,434	18,147,208	28,607,216	31,306	34,867	7,717,911
Other assets:						
Unamortized bond issuance costs	—	1,574,976	527,251	—	—	238,493
Accumulated amortization of bond issuance costs	—	(1,303,523)	(191,590)	—	—	(199,155)
Net bond issuance costs	—	271,453	335,661	—	—	39,338
Net costs to be recovered from (refunded to) Members in future billings	(12,865)	(5,187,894)	251,628	(12,734)	3,064	(6,086,979)
	(12,865)	(4,916,441)	587,289	(12,734)	3,064	(6,047,641)
Total assets	\$ 2,532,793	\$ 31,314,925	\$ 43,470,594	\$ 6,867,357	\$ 3,788,052	\$ 3,425,323

Municipal Power Systems

ject Financial Statements

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ch 31, 2007

Member Generation	Central- St. George	UAMPS Pool	Payson	IPP #3	Resource	Government and Public Affairs	Member Services	Total
\$ 1,626	\$ 516,849	\$ 3,242,431	\$ 4,283,779	\$ 426,152	\$ 1,030	\$ 121,109	\$ -	\$ 21,554,045
12,879	-	-	4,473,618	453,393	-	-	-	18,048,492
495	143,039	3,771,971	1,297,598	99,926	370	22,052	6,105	9,504,388
15,000	659,888	7,014,402	10,054,995	979,471	1,400	143,161	6,105	49,106,925
12,532	2,165,601	-	16,630,623	-	-	-	-	35,788,683
499,677	-	-	93,893,626	-	-	-	-	199,310,075
-	36,637,357	-	10,521,738	-	-	-	-	64,651,483
12,965	71,655	95,872	172,428	83,650	69,286	135,268	10,367	1,231,352
512,642	36,709,012	95,872	104,587,792	83,650	69,286	135,268	10,367	265,192,910
(489,849)	(15,287,005)	(108,744)	(13,333,747)	(34,657)	(58,517)	(84,835)	(10,581)	(101,192,643)
22,793	21,422,007	(12,872)	91,254,045	48,993	10,769	50,433	(214)	164,000,267
-	-	-	-	-	-	-	-	3,381,629
22,793	21,422,007	(12,872)	91,254,045	48,993	10,769	50,433	(214)	167,381,896
-	828,446	-	2,662,326	-	-	-	-	5,831,492
-	(239,603)	-	(466,990)	-	-	-	-	(2,400,861)
-	588,843	-	2,195,336	-	-	-	-	3,430,631
13,151	5,483,594	6,132,805	598,317	(68,219)	(8,380)	(11,610)	288	1,094,166
13,151	6,072,437	6,132,805	2,793,653	(68,219)	(8,380)	(11,610)	288	4,524,797
\$ 63,476	\$ 30,319,933	\$ 13,134,335	\$ 120,733,316	\$ 960,245	\$ 3,789	\$ 181,984	\$ 6,179	\$ 256,802,301

Schedules of Project Fir

Balance S

	CRSP	Hunter II	San Juan Unit 4	IPP	Firm Power	Craig-Mona
Membership capital and liabilities						
Current liabilities:						
Outstanding checks in excess of transfers	\$ (405,373)	\$ (4,863,733)	\$ 312,114	\$ (468,056)	\$ (1,988,224)	\$ 4,508
Accounts payable	1,392,714	177,641	1,849,239	2,857,803	1,790,093	(411,882)
Accrued liabilities	53,571	3,619,039	5,872,403	2,665,045	36,251	56,145
Members' advance billings	—	—	—	—	—	—
Notes payable	1,356,587	2,256,559	1,434,783	1,195,583	2,909,077	259,228
Current portion of deferred revenue	—	20,801	350,409	—	—	530,326
	<u>2,397,499</u>	<u>1,210,307</u>	<u>9,818,948</u>	<u>6,250,375</u>	<u>2,747,197</u>	<u>438,325</u>
Liabilities payable from restricted assets:						
Accrued interest payable	3,222	263,422	471,320	2,840	6,909	50,725
Current portion of long-term debt	—	6,779,056	1,140,000	—	—	915,000
	<u>3,222</u>	<u>7,042,478</u>	<u>1,611,320</u>	<u>2,840</u>	<u>6,909</u>	<u>965,725</u>
Long-term debt:						
Bonds payable, less current portion	—	20,160,000	26,500,000	—	—	1,975,000
Less: unamortized bond discount	—	(92,109)	—	—	—	—
Plus: unamortized bond premium	—	521,761	—	—	—	—
	<u>—</u>	<u>20,589,652</u>	<u>26,500,000</u>	<u>—</u>	<u>—</u>	<u>1,975,000</u>
Deferred revenue, less current portion	<u>—</u>	<u>268,676</u>	<u>9,458,833</u>	<u>—</u>	<u>—</u>	<u>9,015,537</u>
Accumulated amortization of deferred revenue	<u>—</u>	<u>(180,274)</u>	<u>(4,494,704)</u>	<u>—</u>	<u>—</u>	<u>(8,882,960)</u>
Net deferred revenue	<u>—</u>	<u>88,402</u>	<u>4,964,129</u>	<u>—</u>	<u>—</u>	<u>132,577</u>
Net assets	<u>132,072</u>	<u>2,384,086</u>	<u>576,197</u>	<u>614,142</u>	<u>1,033,946</u>	<u>(86,304)</u>
	<u>\$ 2,532,793</u>	<u>\$ 31,314,925</u>	<u>\$ 43,470,594</u>	<u>\$ 6,867,357</u>	<u>\$ 3,788,052</u>	<u>\$ 3,425,323</u>

Municipal Power Systems

Financial Statements (continued)

Sheet (continued)

Member Generation	Central- St. George	UAMPS Pool	Payson	IPP #3	Resource	Government and Public Affairs	Member Services	Total
\$ (120,614)	\$ 1,803,855	\$ 11,493,863	\$ (3,675,319)	\$ (444,432)	\$ (551,097)	\$ (268,111)	\$ (10,485)	\$ 818,896
3	44,761	1,614,671	5,875,355	180,647	51,563	42,341	43	15,464,992
12,879	37,608	108,598	3,424,864	572,718	487	63,708	-	16,523,316
-	-	-	657,496	-	-	-	-	657,496
1,119	323,398	1,039,487	2,933,759	225,924	837	49,857	13,802	14,000,000
-	116,445	44,196	264,999	-	-	-	-	1,327,176
(106,613)	2,326,067	14,300,815	9,481,154	534,857	(498,210)	(112,205)	3,360	48,791,876
3	423,939	2,469	2,468,735	537	2	118	33	3,694,274
-	1,485,000	-	3,189,952	-	-	-	-	13,509,008
3	1,908,939	2,469	5,658,687	537	2	118	33	17,203,282
-	24,910,000	-	95,005,000	-	-	-	-	168,550,000
-	-	-	-	-	-	-	-	(92,109)
-	-	-	6,373,865	-	-	-	-	6,895,626
-	24,910,000	-	101,378,865	-	-	-	-	175,353,517
-	2,800,269	-	5,035,000	-	-	-	-	26,578,315
-	(1,448,648)	-	(998,309)	-	-	-	-	(16,004,895)
-	1,351,621	-	4,036,691	-	-	-	-	10,573,420
170,086	(176,694)	(1,168,949)	177,919	424,851	501,997	294,071	2,786	4,880,206
63,476	\$ 30,319,933	\$ 13,134,335	\$ 120,733,316	\$ 960,245	\$ 3,789	\$ 181,984	\$ 6,179	\$ 256,802,301

Utah Associated N

Schedules of Project Fir

Statement of Re

Year Ende

	CRSP	Hunter II	San Juan Unit 4	IPP	Firm Power	Craig-Mona
Operating revenues:						
Power sales to Members	\$ 12,188,493	\$ 20,231,557	\$ 14,244,565	\$ 15,739,598	\$ 25,927,116	\$ 1,752,622
Other	771	692	2,743	496	876	73
	<u>12,189,264</u>	<u>20,232,249</u>	<u>14,247,308</u>	<u>15,740,094</u>	<u>25,927,992</u>	<u>1,752,695</u>
Operating expenses:						
Cost of power	11,676,158	9,698,566	8,583,694	15,063,381	25,113,422	278,854
In lieu of ad valorem taxes	—	236,109	116,725	148,348	—	88,915
Depreciation	25,731	2,457,210	1,688,050	17,964	26,603	608,196
General and administrative	452,937	420,775	336,232	299,362	515,494	144,860
	<u>12,154,826</u>	<u>12,812,660</u>	<u>10,724,701</u>	<u>15,529,055</u>	<u>25,655,519</u>	<u>1,120,825</u>
Operating income	34,438	7,419,589	3,522,607	211,039	272,473	631,870
Nonoperating revenues (expenses):						
Interest income	—	364,107	246,717	25,387	—	87,524
Interest expense	(34,630)	(1,156,026)	(1,449,406)	(30,520)	(74,262)	(186,403)
Amortization of bond issuance costs	—	(137,319)	(22,131)	—	—	(14,752)
	<u>(34,630)</u>	<u>(929,238)</u>	<u>(1,224,820)</u>	<u>(5,133)</u>	<u>(74,262)</u>	<u>(113,631)</u>
Excess of revenues over expenses before net costs to be recovered from future billings to Members	(192)	6,490,351	2,297,787	205,906	198,211	518,239
Increase (decrease) in net costs to be recovered from future billings to Members	8,008	(6,432,997)	(2,244,173)	6,107	11,781	(531,097)
Excess of revenues over expenses	<u>\$ 7,816</u>	<u>\$ 57,354</u>	<u>\$ 53,614</u>	<u>\$ 212,013</u>	<u>\$ 209,992</u>	<u>\$ (12,858)</u>

Municipal Power Systems

Financial Statements (continued)

Revenues and Expenses

ended March 31, 2007

Member Generation	Central- St. George	UAMPS Pool	Payson	IPP #3	Resource	Government and Public Affairs	Member Services	Total
\$ 10,077	\$ 3,094,392	\$ 25,540,524	\$ 42,022,311	\$ 2,167,767	\$ -	\$ 448,834	\$ 131,660	\$ 163,499,516
-	171	1,842	454	320	7,537	171	-	16,146
10,077	3,094,563	25,542,366	42,022,765	2,168,087	7,537	449,005	131,660	163,515,662
472	162,169	24,376,074	29,175,577	567,782	-	23,775	129,009	124,848,933
-	-	-	-	-	-	-	-	590,097
1,045	1,600,890	12,932	4,875,035	28,353	14,535	35,975	214	11,392,733
1,487	321,417	1,039,265	1,009,402	1,416,273	2,116	346,515	689	6,306,824
3,004	2,084,476	25,428,271	35,060,014	2,012,408	16,651	406,265	129,912	143,138,587
7,073	1,010,087	114,095	6,962,751	155,679	(9,114)	42,740	1,748	20,377,075
576	164,110	156,691	562,292	-	-	-	-	1,607,404
(29)	(1,221,602)	(26,536)	(4,783,358)	(5,767)	(21)	(1,273)	(352)	(8,970,185)
-	(61,462)	-	(115,544)	-	-	-	-	(351,208)
547	(1,118,954)	130,155	(4,336,610)	(5,767)	(21)	(1,273)	(352)	(7,713,989)
7,620	(108,867)	244,250	2,626,141	149,912	(9,135)	41,467	1,396	12,663,086
(1,962)	49,836	251,093	(1,935,674)	(20,439)	14,336	9,925	214	(10,815,042)
\$ 5,658	\$ (59,031)	\$ 495,343	\$ 690,467	\$ 129,473	\$ 5,201	\$ 51,392	\$ 1,610	\$ 1,848,044

Other Reports

Report of Independent Auditors on State of Utah Legal Compliance

The Board of Directors
Utah Associated Municipal Power Systems

We have audited the financial statements of Utah Associated Municipal Power Systems (UAMPS) for the year ended March 31, 2007, and have issued our report thereon dated July 11, 2007. Our audit included testwork on UAMPS' compliance with the following applicable general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Other General Issues

UAMPS did not receive any major or nonmajor state grants during the year ended March 31, 2007.

The management of UAMPS is responsible for its compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about UAMPS' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Utah Associated Municipal Power Systems complied, in all material respects, with the general compliance requirements identified above for the year ended March 31, 2007.

Ernst & Young LLP

July 11, 2007

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance
with *Government Auditing Standards***

The Board of Directors
Utah Associated Municipal Power Systems

We have audited the financial statements of Utah Associated Municipal Power Systems as of and for the year ended March 31, 2007, and have issued our report thereon dated July 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Utah Associated Municipal Power Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Utah Associated Municipal Power Systems' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Utah Associated Municipal Power Systems' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Utah Associated Municipal Power Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

July 11, 2007